

Socioeconomic tips of the month

Q. What should be considered in expanding our surgical practice?

A. Deciding when and how to expand the size of a surgical group presents many issues for surgeons. The decision to expand should never be taken lightly, according to Tom Loughrey, CEO of Economedix, a practice management consulting and education company with offices in California and Pennsylvania. The analogy of a marriage is very applicable. Living through an unsuccessful “marriage” and perhaps dissolving it is traumatic, stressful, expensive, and it takes away from the real purpose of the group: quality medical care.

Because of the high costs for an unsuccessful attempt to expand, the practice has three fundamental issues to negotiate in any expansion:

1. Why is it necessary to expand to begin with?
2. What expectations do existing group members have for expansion and what are the collective expectations?
3. What barriers to successful expansion must be overcome?

Too often these issues are dealt with only when problems have begun to develop. By anticipating potential problems and developing strategies for dealing with them the whole process will be smoother and much less stressful. Of course, planning in advance is time-consuming and may even add to the expense. Consider it an investment to increase the odds for a successful expansion.

First things first: why is it important to understand the reasons to expand? The obvious answer is that if it is not clear to all why a need to expand exists, it may not really be needed.

Some of the common reasons to expand include: reduced overhead per doctor; reduced call and coverage requirements; and an improved ability to subspecialize, capture market share, reduce competitive pressures, plan for future retirement, and raise new capital. Certainly there are other reasons, but these are among the most commonly cited. These motivations, however, must make sense in the light of market realities and physician expectations.

The conventional wisdom is that increased size should produce savings through improved

economies of scale. The problem is that economies of scale are not achieved as quickly as increased costs accumulate. Adding a single new physician may require new space, more staff, and other resources. It will take months before the cash flow will support these costs even if the new surgeon gets busy immediately. And that may not happen. Credentialing is taking an increased amount of time for hospitals and health plans. If a health plan has closed the panel for the surgical specialty, there may be no opportunity to get the new surgeon busy quickly, if at all. Guarantees for support of overhead and income are also becoming increasingly difficult to obtain. Even when they are available, they will be structured as market rate loans.

In some cases the expansion is only temporary: it is the first step in planning for the slow-down or retirement of a senior member of the group. But care must be taken here as well. Will closed panels open up to new members even if one member leaves? Will referral patterns remain largely unchanged? How must space, staff, and schedules be rearranged on an interim basis? What if a “retiring” partner has a change of mind?

Some groups are counting on a new colleague to effectively buy in to the group, which will fund a buy-out to the retiring partner. Today, though, not everyone wants partnership. There may only be an expectation for a good career opportunity in surgery without the additional responsibility of ownership. Even if the new associate does look forward to having an equity interest in the practice, there may be a significant difference in expectations as to what will be paid to buy in vs. funding a buy-out.

The need to expand is occasionally thrust upon the group as a business necessity. This can happen for a variety of reasons. Competitive threats, new practice locations, or another existing practice sale opportunity may all make compelling reasons to expand. The choice then will be to spread the group too thinly, increase the workloads unrealistically, or add new surgeons.

As groups mature, one of the main reasons to expand is to improve quality-of-life issues for existing members of the practice. Generally, this means reducing the requirements for being on call nights and weekends. Although this is a le-

gitimate reason to expand, it will be very expensive if the group does not prepare itself for the increased cost by planning new business development to support the addition.

Assessing expectations

Successful group expansions often start with a thorough review and open discussion of individual expectations. By finding out individual preferences and expectations, a collective set of expectations can be developed for the group. Doing so will make the tasks much easier down the road when decisions have to be made about salaries, qualifications, staffing, facilities, equipment, and so on.

Developing a collective set of expectations is easy when there is little or no disagreement in the individual sets of expectations. Unfortunately, this is rarely the case. Consider the case of three surgeons looking to bring in a new colleague. One partner expects the new colleague to allow her to focus more on subspecialty surgical interests. The second partner wants to open a satellite office to capture market share in a growing area of town. The third partner thinks that if everyone worked just a little harder there would not be a need for a new partner at all. About the only area on which there is general agreement is that the new colleague would take at least two weekends of call per month until he or she reaches partnership status. No one even agrees when that should occur.

Resolving these issues, defining areas in which there is general agreement, determining issues that are strongly held by individuals, and then developing a common set of expectations may be one of the most significant acts of planning what the group does. These common expectations will help determine who will be interviewed, what the job description will entail, when and where the search will occur, how much the compensation package will be, what call schedules will look like, and when the new colleague will be able to participate as an equal partner.

Putting it all together

Frequently the process of expanding a group requires the group to go through a strategic planning process and organize itself. There are several key documents that the group needs to

have updated and functional even without a new addition. The expansion only makes the already needed documents that much more important. Minimally, these documents include a buy-sell agreement for the group, whether it is organized as a partnership or a corporation, and employment agreements for each individual.

The buy-sell agreement generally will deal with issues surrounding how a new partner, or shareholder, will come into the group and under what terms and conditions an existing partner, or shareholder, leaves the group. Some of the common issues covered in this document deal with member qualifications such as licensure, board certifications, credentialing eligibility, and so on. The buy-sell should also describe how the practice would be valued for purposes of the buy-in or a buy-out. In order to be a flexible document that will serve the group for a long period of time, the valuation portion is usually described as a process rather than as a set number.

It may also be important to have times to regularly review the document. Frequently, this kind of review only happens when an event, such as group expansion, occurs.

The second document that needs to be evaluated is the employment agreement. This agreement is between the group and each member of the group. Issues such as compensation, call responsibilities, time off, work hours and locations, non-compete covenants, exclusive use of services, and other expectations are covered in this document.

In many cases the employment agreements are identical in the group. They do not have to be identical, though. Through this document, which applies to both shareholders and employees, differences can be established that reflect the expectations that have been developed in the planning process. Issues such as call schedules may differ between members based on age and length of service. Certainly compensation differences will be different and officer positions will be different. It is the differences in these employment agreements that make them useful.

If a group considering expansion does not have a functional set of bylaws, a buy-sell agreement,

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ACS workshop addresses coding/reimbursement issues

Sessions of a workshop sponsored by the ACS Socioeconomic Affairs Department, CPT & ICD-9-CM (Part I & Part II), have been scheduled for the fall. The workshop is designed to teach participants essential coding and formatting principles for reporting surgical procedural services, such as the CPT and Medicare “global surgical package” rules, surgical modifiers, “un-

listed” procedures, and operative report dictation.

The workshop provides comprehensive instruction in CPT rules for Evaluation/Management Levels of Service and the HCFA “Documentation guidelines.” These guidelines have recently been revised by Medicare for use in HCFA audits of private, group, and academic practices.

• September 9-10 (Saturday/

Sunday), New York, NY.

• October 24-25 (Tuesday/Wednesday), Chicago, IL.

• November 11-12 (Saturday/Sunday), Phoenix, AZ.

Additional information on the 2000 socioeconomic workshops can be obtained on the ACS Web site at www.facs.org (Socioeconomic Legislative Affairs); or by contacting Lucille Clark, tel. 312/202-5150; e-mail lclark@facs.org.

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and employment agreements, this will be one of the first assignments in any effort to expand the group. It is a collective effort in that everyone will have an opinion, but the documents will express the group opinions very pragmatically. The exercise of developing these fundamental documents combined with developing a group consensus on reasons for expansion and expectations of the expansion will reveal the barriers and even suggest the solutions to overcoming the barriers.

The challenge to a group considering expansion will be to take the time to create a plan that takes an honest look at the group, where it is headed, and what ability it has to reach desirable ends. The

investment of time and money on the front end usually is small compared with the time and money that can be invested in an expansion that was poorly planned. [Q](#)

“Socioeconomic tips of the month” responds to questions from Fellows and their staffs, and provides useful tips for surgical practices. Developed by College staff and consultants, this information will be accessible on our Web site for easy retrieval and future access. If there are topics you would like to see addressed in future columns, please contact the Chicago staff of the Socioeconomic Affairs Department, tel. 312/202-5150, fax 312/202-5021, or e-mail socioecon@facs.org.

Trauma meetings calendar

These continuing medical education courses in trauma are sponsored by the ACS Committee on Trauma.

**Trauma and Critical Care
2000—Point/Counterpoint
XIX**

May 21-24, 2000,
Atlantic City, NJ

Advances in Trauma
December 8-9, 2000
Kansas City, MO

Complete course information can

be viewed online (as it becomes available) through the ACS Web site (www.facs.org/about_college/acsdept/trauma_dept/cme/traumtgs.html) or contact the Trauma Department at 312/202-5342.